ACCIDENT INSURANCE

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By the way, *what is an accident?* A clear and comprehensive answer would be warmly welcomed in the claim department of every accident insurance company. Up to date each time some proud discoverer has imagined that his definition would hold—that he has hit upon an unfailing formula—the endless cup-chain of events has dipped down into the bottomless well of evolution and brought to the surface a new and unthought-of combination of circumstances, smashing the formula into little bits. No lexicon comes within hailing distance of a solution. Later I shall state, briefly, what kind of an accident one must have in order to pry up the lid of an accident insurance company's strong box.

The Beginning of Accident Insurance in this Country.

The Travelers Insurance Company, of Hartford, was chartered in 1863, and that may properly be said to be the beginning of accident insurance as it is known to-day. Prior to that, English companies had granted insurance against the hazard of railway travel, but general accidents were not considered insurable until then.

The first contract of accident insurance made in this country was for a premium of two cents. Early in the year 1864, while Lincoln was still serving his first term as President, James G. Batterson verbally insured James Bolter in the sum of $5,000 against death if due to an accident occuring while Mr. Bolter walked from the Hartford Post Office to his residence in the same city, the consideration being two cents. At that time The Travelers Insurance Company was chartered and Mr. Batterson was its president, but it had not begun active business. That original premium, two one-cent pieces, is still in the possession of The Travelers Insurance Company,

and Mr. Batterson, now deceased, became the most famous accident underwriter in the world.

From that small beginning has grown a business of many ramifications and of great importance. About fifteen millions of dollars are now paid annually in this country in personal (or individual) accident insurance premiums alone, while the general business of accident (or casualty) insurance has broadened until it now embraces liability insurance in all its branches, such as the liability (for damages on account of accidental bodily injuries) of manufacturers and contractors to their employees and to the public, the liability of owners of real estate and of owners of horses and automobiles to the public, etc., and also elevator, steam boiler, plate glass, automatic sprinkler, fly-wheel, and other like lines of insurance, while many accident insurance companies now also insure against sickness and burglary.

How to Start a Stock Accident Insurance Company.

There are several kinds of organizations issuing accident insurance in this country to-day—stock companies, fraternal associations, assessment societies and benevolent orders, each operating on a different plan but all organized for the same purpose—the benefit of the organizers. Time, however, makes it necessary to deal with stock companies only.

If it is desired to organize a stock accident insurance company in the State of New York (whose insurance laws are similar to and illustrative of those of other states, many of which have practically adopted the New York insurance laws), one must first sell at least one hundred thousand dollars of capital stock to *bona fide* cash purchasers, and with the money must purchase certain securities and deposit them with the insurance department of the state, for the protection of those who are insured. The interest on these securities may be drawn, but the securities themselves cannot be touched so long as there is a policy outstanding or a claim unsettled. They will be held by the state to pay the claims against the company if it cannot pay them out of the premiums received, and if it reaches a point where the state insurance commissioner is of the opinion that it cannot "make good," he will—through the proper legal channel—put the company in the hands of a receiver, who will wind up its

affairs, using (in addition to the other assets) as much of the deposit with the state as will be necessary to pay its debts—which will in all probability be all of it.

This one hundred thousand dollars will permit the company to write one "line"—say personal (or individual) accident insurance. If the company wants to write other lines, like steam boiler, plate glass, burglary insurance, etc., then it must increase its capital and sell more stock, and make an additional deposit with the state. A deposit of $200,000 will permit the company to write two lines, while a deposit of $250,000 will permit it to write all the "casualty" (so called) lines. Most companies write several lines.

Having made the necessary deposit with the state, the company is ready for business, except that having deposited every dollar of its capital with the state, and not being permitted to withdraw a dollar of it for any purpose whatsoever, it will not have anything with which to pay the expenses of getting under way. Beyond all this, the state requires the company to keep always on hand (in cash or approved securities) an amount equal to the unearned premiums on all policies it has in force. This is called the reinsurance reserve. The state requires this reinsurance reserve to be maintained unimpaired, so that in the event of assuming greater liabilities than the company can carry it will have on hand sufficient premiums with which to pay a solvent company to assume the policies it has issued.

I have stated that the law requires the company to keep always on hand as a reinsurance reserve an amount equal to the sum of the unearned premiums on all the policies it has in force. Accident policies are issued, usually, for one year and the premiums are paid in advance. The premium is "earned" day by day as time goes by, so that when the policy has been in force one month, then one month's premium (or one-twelfth of the year's premium) has been earned and eleven months' premium (or eleven-twelfths of the year's premium) is unearned; when the policy has been in force two months, then two months' premium has been earned and ten months' premium is unearned, and so on. Of course at the end of the eleventh month there has been eleven months' premium earned and there is but one month of unearned premium. As practically all the policies are written for one year, the *average* earned premium is six months, likewise the average unearned premium is six months; hence the

company will find it necessary to maintain as a reinsurance reserve one-half of its premiums in force at any one time. If at any given time the full premiums on all the policies the company has in force amount to one million dollars, then its reinsurance reserve at that time should amount to one-half a million dollars; the average time the policies would have to run being six months. Policies written on a semi-annual and quarterly basis would affect this "easy calculation," but there are not enough semi-annual and quarterly premiums written to warrant further comment.

Having deposited all of its capital with the state and being obliged to keep intact as a reinsurance reserve its premiums as fast as they come in, where is the company to get the money with which to pay the expenses of organization, the printer, office rent, clerk hire, salaries and traveling expenses of those whom it employs to send through the country to secure agents, agents' commissions, postage and the fees and taxes of the various states in which it desires to do business? If the organizers are wise, they will have provided for this contingency by having sold its capital stock at a premium. Suppose they capitalize at $300,000, divided into 3,000 shares, and sell the shares at $150 each. This will amount to $450,000,—$150,000 more than the capital, and this $150,000 can be used for the purpose of getting under way, leaving the capital and reinsurance reserve unimpaired. It may be somewhat difficult to convince people that they are being offered a good investment when they are asked to pay $150 for a share in a new company whose par value is but $100, especially as the newcomer must compete with firmly established and powerful rivals, but the surplus fund thus acquired is indispensable. The company must have a "working" capital.

The Internal Workings of a Stock Accident Insurance Company.

A few words about the internal organization of a stock accident insurance company may be said, omitting some of the preliminary details necessary to place the company in actual working order. The active affairs of the company are managed by officers, the president and the secretary or the general manager and the secretary usually being in control with subordinate officers and heads of departments in immediate charge. The officers are elected annually by the directors (sometimes called trustees). The directors are

elected by the stockholders, usually for a term of three years. Most boards of directors consist of nine or fifteen or twenty-one members, and their tenure of office is arranged so that one-third retire each year, making it necessary for the stockholders to elect one-third of the full board each year. Under ordinary circumstances, the stockholders meet but once a year and for the sole purpose of electing directors. The directors are commonly vested with the full control of the company and all its belongings. They usually meet monthly to receive reports from and give directions to the officers. Frequently the full board of directors elects from its body a smaller number as an executive committee, and this committee keeps in close touch with the affairs of the company and passes upon all but the most important matters. Then (in theory, at least) the heads of departments report to the subordinate officers, the subordinate officers to the executive officers, the executive officers to the executive committee, the executive committee to the board of directors, and the board of directors to the stockholders, who are the owners of the company.

The executive officers are almost always directors and members of the executive committee, and—as a matter of fact—the executive officers practically control the company and are responsible for its success or failure, and the state insurance departments hold them directly and personally responsible for the proper conduct of the company's affairs. The nature of the business is such that it is absolutely essential to the success of the company that its officers be given the greatest freedom in the exercise of their individual judgment, and it is also of equal importance that the board of directors never relinquish their right to interfere when interference is necessary. For a board of directors to attempt to handle the details or any considerable part of them, however, would be like the President's cabinet in time of war attempting to direct every movement and every order of a general while engaged in battle. And the successful executive of an insurance company is always engaged in battle—a constant battle for supremacy, which means that the odds are always against him, for he must forever contend against a greater force than his own, every other company being a competitor for the business already on his books as well as for that which he is trying to place on his books.

Sub-divisions of Departments.

The general underwriting department of an accident insurance company will be sub-divided into other departments,—such as the agency (or business producing) department, the accounting department and the claim department. Of course the most important of these is the agency department, and it should be presided over by a born business producer, one who can place business on the books of the company through his agency corps at a cost which it can afford to pay.

Scarcely less valuable to the company, however, is the claim department, for it is practically the only department which comes in close personal touch with the policyholder, and the success of the company will depend very largely upon the treatment accorded to its claimants. Here, as nowhere else, is brought out the complicated and indefinite nature of accident insurance. In most other forms of insurance indemnity is paid under exact and absolute conditions. This is not true of accident insurance. Even in the case of death, it is frequently not at all clear whether death was due to accident or to some other cause. When the claim is for loss of time the company must consider, not only the circumstances in connection with the injury and how it occurred, but also the disability itself—its duration, whether total or partial in itself, whether total or partial in view of the nature of the occupation,—and the trustworthiness of the information concerning these points. Incidentally, too, it must determine the bearing of the claim upon the desirability of continuing the insurance on the risk. The head of the claim department should be selected with infinite care.

It will be found that during the policy year one claim will be made for about every seven policies written; that the average period of total disability will be about three weeks; that during the policy year one out of about every six hundred policyholders will meet death coming within the meaning and intent of the insurance contract.

Policy Forms, and How to Obtain Them.

In organizing a company one need not, at first, bother much about policy forms, because those of leading companies may be adopted. While new policy features are the fad of the day with

accident insurance companies, and while there is a difference in policies, yet—as a rule—one company pays its patrons, in settling claims, about as much as other companies would give under like circumstances, making the result of accident insurance, in this respect, as a whole, about the same to the insured and the insurer irrespective of policy forms and the advertising features in connection therewith. At the same time the trend of the business is to deal with the insured with extreme liberality, and to this may be attributed the increasing popularity of accident insurance.

Purpose of Accident Insurance, Premium Charges and Classification of Risks.

When it comes to rates (premiums) and classifications one can also play "follow the leader" (until one becomes a leader), for while there is a divergence here and there, yet in the main the rates and classifications of the leading companies are the same.

The average accident policy provides the following indemnities: For loss of life, or two feet, or two hands, or one hand and one foot, or two eyes, $5,000; for loss of one foot, or one hand, $2,500; for loss of one eye, $1,666; for total loss of time, $25 per week—not exceeding two hundred consecutive weeks; for partial loss of time, $10 per week—not exceeding twenty-six consecutive weeks. The lowest premium for all this is $20 per year, and the highest premium (outside of a few very dangerous occupations) is $150 per year.

"Trimmings" of all sorts go with the policy, if the insured wants them or if the agent can make him think he wants them, and for these extras the company charges an additional premium. One of the extras provides that the insured shall be entitled to double indemnity if he meets with a disabling accidental bodily injury while traveling as a passenger in a conveyance provided by a common carrier. But time prevents discussion of these details.

Speaking of rates, perhaps it seemed that the two-cent premium paid to Mr. Batterson by Mr. Bolter, in consideration of which Mr. Batterson agreed to pay Mr. Bolter's estate five thousand dollars if Mr. Bolter was accidentally killed while walking from his post office to his residence, was a very small premium. As a matter of fact, it was an enormously high premium. It is estimated that it

took Mr. Bolter six minutes to walk the distance. Two cents for six minutes is at the rate of twenty cents for one hour, four dollars and eight cents for one day, $1,752 for one year. To-day any company in the land would be glad to accept a like risk for one year for ten dollars.

To be entitled to indemnity the insured must suffer a loss caused by bodily injury effected exclusively and directly by external, violent and accidental means which, independently of any and all other causes, immediately and continuously disables him.

The purpose of accident insurance is to reimburse the insured for the financial loss he sustains by reason of an accidental bodily injury of such a nature as to disable him—as to prevent him from attending to the duties of his occupation. Accident insurance does not contemplate pain or inconvenience, *per se,* although many claimants think it should. The policy covers both total disability and partial disability. Total diability (or total loss of time) means that period during which the insured is rendered continuously unable to transact each and every part of his business duties. Partial disability (or partial loss of time) means that period during which the insured is rendered continuously unable to transact one or more of his important and necessary daily business duties. The policy also insures against loss of sight and loss of limb and loss of life. Indemnity for the loss of time or sight or limb is payable to the insured. Indemnity for the loss of the life of the insured is payable to the beneficiary, whom the insured selects—most frequently his wife.

When one buys accident insurance the premium paid will depend upon what class one is in, and the classification is determined by the hazard of the occupation. The hazard is ascertained from tables of accidents which have been compiled for many years and by many companies. In accordance with their relative hazards the various employments of mankind are divided into less than a dozen classes. In some companies these classes are known by descriptive titles, such as special, preferred, extra preferred, ordinary, medium, hazardous, extra hazardous, special hazardous, and so on; while other companies designate them as class one, class two, class three, and so on.

What Determines Classifications.

It has been stated that the man whose occupation is embraced in the least hazardous class pays $20 per year for a certain amount of insurance, while a man engaged in an occupation included in the most hazardous class must pay $150 for the same amount of insurance. From this wide difference in the rate of premium charged different individuals springs the need of accurate classification at the home office of the company. "Familiarity breeds contempt," and the man engaged in a hazardous occupation is the last man to believe that it is hazardous. Of course, in some cases the comparative hazard is apparent; everybody knows that a railroad brakeman is more liable to accidental bodily injury than a college professor—everybody but the brakeman; but everybody does not know that the best of all risks for an accident insurance company is a traveling salesman—if he travels on the cars. He is not so good when he travels by horse and carriage. Suppose we compare the commercial traveler with the dentist, as regards probability of disability from accident. In the first place, taking into account all the losses which have been paid by all the accident insurance companies doing business in this country during the past twenty years, only 4.77 per cent. arose from traveling on the railroad and but 2.74 per cent. resulted from street-car travel, showing that the popular idea regarding the hazard of travel is erroneous. In the second place, a little injury to the dentist's fingers puts him on the retired list for the time being. His fingers must be in normal condition to perform his work. And as he must stand to do his work, a slight injury to his foot is likely to estop him for the time being from following his occupation. But the traveling salesman goes merrily on with one arm in a sling or a crutch in place of one foot, gathering sympathy, admiration and orders as he goes. Indeed, he must go on, unless his jaw-bone is broken or dislocated, for to lay up means big hotel bills and some other fellow interferring with his "trade." Beyond this, the really good salesman is a man of nerve, not "cheek," but nerve and grit and courage, better remedies than medicine.

These illustrations point to other factors which enter into the classification of an occupation. First among these is what may be termed the *nature* of the occupation. Here we do not consider the effect of the occupation upon exposure to injury, but rather the effect

of the injury upon the performances of the duties of the occupation. To illustrate: A barber is not more exposed to accidental bodily injury than a lawyer; the slightest injury to the barber's hands, however, will disable him, while the same injury would merely inconvenience the lawyer and in no wise prevent him from attending to his usual duties. Take the watchmaker; a slight injury to his hand and the deftness and skill, so necessary to his craft, are gone. Let the business manager of a mercantile or manufacturing establishment injure his hand slightly, or even severely, and he goes on his way serenely.

Now consider the nature of the occupation in another aspect—its direct effect upon the injury itself. The surgeon affords an excellent example of this. Think of his constant exposure to septic poisoning in cases of even the most trifling injuries, mere abrasions of the skin. In many other curious ways this nature of the occupation exerts an influence and often explains many of the apparently unfair classifications.

Then there is the "moral hazard," not moral hazard in a general sense, but, specifically, the moral hazard incident to an occupation. It is well known that certain occupations are identified with certain classes, or say "grades," of men. This fact has, of course, a direct bearing upon his moral hazard. This idea also works conversely; that is, occupation has a direct influence upon the morals. Examples of this association between employment and morals are familiar to everyone, and I will only refer to instances where the connection is less apparent. It has been found that occupations in which employment is not constant or which, by their character, are not followed during certain periods of the year, are particularly dangerous from the underwriter's standpoint. The actor is frequently unemployed during the summer, certain classes of skilled laborers are idle during certain seasons, the student is idle most of the time, and so on. Experience has corroborated the precepts of the Bible; idleness leads to trouble—for the accident company. A wound does not heal so quickly, a slight scratch is totally disabling, and sometimes—well, when the insured is out of employment the accident company is supposed to play the rôle of Lady Bountiful.

There is still another point to consider; the influence of the occupation upon the physical state. Physical condition is, of course,

a vital factor in accident insurance; not only is the unhealthy risk more liable to injury and slower and less sure of recovery, but complication by disease is apt to arise, even from a trifling injury. The cause of this influence is often hard to assign, but in many cases it is easily seen. The intemperate habits of certain kinds of laborers, the excessive physical labor required of others, the conditions under which the work is performed, these and many other causes have their bearing.

Absolutely accurate classification can never be attained. The "personal equation," ever prominent in accident insurance, does not permit of this. The lawyer in the country milks his cow and harnesses his horse and does the "chores" about his house, and is thereby more exposed to accident than the city lawyer. The energetic, prosperous lawyer continues at his work even after a severe injury; the less industrious, less prosperous lawyer remains at home to recuperate. Women without steady employment are undesirable accident insurance risks, and men not regularly engaged in an occupation for hire or profit are equally so. Accident insurance is not really insurance against accident, but insurance against loss arising from accident,—loss of life, loss of sight, loss of limb, loss of time,—and only against loss of time when one's time has a cash value. The time of a man of leisure has no money value. Nor has the time of a woman who is not regularly employed. Women bookkeepers, clerks and stenographers are good subjects for accident insurance, but teachers and actresses are undesirable because during the summer months they are usually unemployed and at such times a very slight injury is likely to end in a prolonged period of disability.

While absolutely accurate classification cannot be attained, yet the business of accident insurance is far enough advanced to permit the underwriter to discard theory, and to-day each occupation is rated according to the actual cost of insuring thousands of like risks as shown by past experience, and when all the occupations insured by any company of considerable size are grouped it is known in advance that the total losses will amount to something less than 50 per cent. of the total premiums received—if the risks are intelligently passed upon at the home office of the company.

Moral Hazard.

In addition to occupation and its associated problems there are other features, quite general in their application, that are to be considered in the selection of risks. The applicant must be old enough, and not too old, to be able to take care of himself; his income must, for obvious reasons, exceed the weekly compensation afforded by his policy; he must be temperate in his habits; mentally and physically sound; and he must not live without the pale of civilization.

Then there is the question of moral responsibility. Moral hazard has been mentioned as associated with occupation, but it must also be taken into account in other ways. Immorality—whether due to habitual intemperance or other dissipation, or to financial stress—must necessarily be sufficient reason (when known) for declining a risk. Moral hazard as here used, has, however, a somewhat different meaning. Policies are frequently obtained with intent to defraud. Every company can cite many cases wherein its policyholders have deliberately and carefully (and too often cunningly) planned to rob it—and more or less frequently with success. At times, murder and suicide enter into the scheme, but usually it takes the form of self-mutilation. To the outsider it seems incredible that men will deliberately and permanently cripple themselves that they may secure the benefits provided by their accident policies, but such things have ceased to create wonder in the realm of accident insurance. Men actually do shoot off a hand or a foot or destroy an eye that they may collect indemnity from an accident insurance company.

If one wants to test the accuracy of this statement, draw the policy so it will pay $5,000 for the loss of the right hand and $1,000 for the loss of the left hand—and it will be found that when the policyholder loses a hand, 'tis the right hand which goes. Then change the policy, paying $5,000 for the loss of the left hand and $1,000 for the loss of the right hand—and be prepared to discover that the policyholders are losing their left and keeping their right hands. Follow it up and one will ascertain that often a gun did it (with the aid of the man behind it), and one will frequently ponder over the fact that the "right-handed" man gets his right hand accidentally shot off—when it is $5,000 to $1,000 in favor of the right hand—by the accidental (?) discharge of a gun in his left hand;

and—strange (?) to relate—the "left-handed" man meets with the loss of his left hand by the discharge (accidental, of course) of a gun in his right hand—when it is $5,000 to $1,000 in favor of the left hand. The further one follows this test the more convinced one will be that the moral hazard is the bugaboo of accident insurance. Mutilation by loss of hand is used as an illustration because all accident insurance companies have had to contend with it. Accident insurance companies are defrauded in many other ways. It is often impossible to establish the fraud to the satisfaction of a jury, but it frequently exists just the same.

Then there are the petty cases of fraud—the claimant feigns the injury, he deliberately prolongs the period of disability and demands compensation for something not covered by his policy—and so on. Ofttimes persons of eminent respectability make excessive claims with no thought of wrong-doing. They may charitably be designated as "unconscious malingerers." Some otherwise fair-minded persons persistently pervert the meaning and intent of accident insurance and maintain that their claims should be paid because to turn them down is to assail their integrity. In many cases the agent who secured the risk writes his company that his business will be ruined if the claim is not paid. Some insured and some agents imagine that to whisper the words, "man of influence in the community" is sufficient to make the company yield to exorbitant demands, but a well-regulated insurance company cannot afford to recognize class distinctions nor to purchase that uncertain thing—influence. It frequently takes more courage to contest a claim than to pay it, but the company, not only in its own behalf but in behalf of its honest patrons, must refuse to countenance blackmail, even though it suffer, for the time being, by so doing. Every company pays, and it is right that it should pay, claims not coming absolutely within the intent of the policy, but to yield where fraud clearly appears is to violate the trust imposed upon the officers by the company's stockholders and honest patrons.

It must not be thought, from this discussion of fraud, that the percentage of dishonest claims is large. In fact, the percentage of contested claims is exceedingly small and the overwhelming majority of claimants are honest. At the same time, the dishonest and exorbitant claimant must be reckoned with. It will not do to leave him out of calculation. He costs time and money.

Losses, Reinsurance Reserve and Expenses.

Having paid out in losses nearly 50 per cent. of the premiums we are brought back to the reinsurance reserve, which, it will be remembered, is an amount equal to the unearned premiums. Altogether this looks like 100 per cent. of the premiums received, and nothing left with which to pay agents' commissions (averaging about 25 per cent. of the premiums), the printers' bills (a large item with insurance companies), postage (another big item), office rent, clerk hire (another important item, as the entire business is one of detail record), salaries and expenses of traveling representatives (and no company can do business without them), state fees and taxes (the latter amounting to 3 per cent. of the gross premiums in some instances), the salaries and expenses of the insurance department examiners (which must be paid by the company), officers' salaries (who, if competent, must be paid liberal salaries), directors' fees (a considerable item in the course of a year), and stockholders' dividends (the very thing promised when the stock was sold).

How can this be done? Well, at first it can't, and that is why the stock was sold at $150 per share, instead of $100—the par value. However, if the officers have a technical knowledge of the business; and if—in addition—they work early, late and all the time; if they possess enthusiasm themselves and the ability to import it to all others connected with the company, including the agency staff as well as the home office force; if they can unerringly separate the fraudulent from the honest claimants; if they can pay a just claim in a manner calculated to make the policyholder feel that the company was organized for that purpose, and have the courage to let the fraud appeal to the courts; if they know how to cause every employee and every patron to realize that all he is entitled to is a "square deal;" if they have the mental and physical endurance necessary to untie hard knots and disentangle difficult problems every day of their lives; if they are constantly posted on the ever-changing insurance laws of each state in which the company does business; if they are original and bold and conservative, all at the same time; if they are tactful and tireless,—then there is a way whereby they can make profit for the owners of the company. Indeed, some men succeed in the business who are not the ideal described; they are those who have a fair amount of these attributes and make up the

balance by sheer hard work, by keeping everlastingly at it; and keeping everlastingly at it almost always brings success in any field of human endeavor.

After all this preamble, it may be stated that if the premiums received in the first year amount to say $500,000, and the policies are all on an annual basis, and the average time they have to run at the end of the year is six months, and consequently one has set aside as a reinsurance reserve $250,000, and the next year the premiums amount to $600,000, then one need only reserve an additional $50,000, for at that time the premiums actually in force will be but $300,000. In other words, after having set aside any amount for a reinsurance reserve one need not increase that amount except as the business increases; hence, if the same amount of business is done the second year as the first year, no more reserve need be set aside, but the entire premium may be used to pay losses and expenses, and losses should not reach quite 50 per cent. of the premiums.

Investment Earnings.

Another very important item has not been mentioned. It is the item of investment earnings. The capital of an insurance company is invested in interest-bearing securities. So is the reinsurance reserve. Likewise the surplus, if there is any, and every well regulated company has a surplus. The amount set aside for claims in the process of adjustment is drawing interest, too. These items go to make up the company's assets, and as the business grows these items grow, until the original capital is but a small part of the total holdings of the company.

Suppose the original capital of $300,000 is intelligently nursed until the total assets are $2,000,000, and the entire amount is safely invested in securities which average a net income of 4½ per cent. This means $90,000 a year from this one source, or 30 per cent. per annum on the capital stock. In that event one can pay out, in losses and expenses, 100 cents for every dollar of premium received and still make the stockholders happy—and, in time, opulent. And then, one need not stop with assets of $2,000,000; but can go on and on, and grow and grow, and the dividends can also go on forever.

Importance of Intelligent Investments.

It appears, then, that there are two principal departments in an insurance company, the insurance (or underwriting) department and the banking (or investment) department, and while the underwriting department must first furnish the funds for the banking department to invest, the success of the company will largely depend upon the intelligence exercised in these investments. The securities must be safe, and at the same time profitable, for an additional one-half of 1 per cent. on $2,000,000 is $10,000 per year, 3 1-3 per cent. on a capital of $300,000.

Should the company reach a point where its interest amounts to $90,000 per year it would be most unwise to pay it all out in dividends to the stockholders; instead it should create a surplus,—for a bad year, for an epidemic of losses, to show the patrons that it can stand reverses and still pay claims. Indeed, should it have no surplus it would be in constant danger of going into the hands of a receiver. Any day may bring a loss of many thousands of dollars, and the following day may be worse. Whenever the company reaches a point where it has no surplus, where the assets equal the liabilities and no more, then the company is right up to the dead line, and should a loss force it over the line, it will soon find the receiver in possession.